

# NATIONAL CREDIT UNION ADMINISTRATION

# NCUA News

## The Year 2000 Roll Out is Underway

Chairman D'Amours joined his four fellow financial regulators Sept. 16, 1999, at the National Press Club in Washington and in New York City on September 21 to kick off an aggressive Y2K media campaign to get the word out to the public on the status of federally insured financial institution preparations for Year 2000.

The regulators told reporters 99.7% of all financial institutions have a Year 2000 rating of "satisfactory," the highest Y2K rating possible, and that financial institutions are well on the way to reaching the goal of total compliance long before year end.

As a member of the five person panel consisting of Donna Tanoue, FDIC Chairman, John D. Hawke, Jr., Comptroller of the Currency, Edward W. Kelley, Jr., Federal Reserve Board Governor, and Ellen Seidman, Office of Thrift Supervision Director; Chairman Norman E. D'Amours reiterated the following salient points to the assembled media:

- More than 99 percent of all federally insured financial institutions are prepared for Y2K.
- We are highly confident that credit union members, and bank and thrift customers will be able to conduct business as usual both before and after



Sept. 16, 1999 — Chairman Norman D'Amours is interviewed at the Press Club in Washington following the joint FFIEC members' press conference held to alert the public to the thorough preparations federal financial institutions have made for Year 2000 computer corrections.

October 1999, Number 7

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January 1, 2000, based on our onsite reviews.

- However, we are ready for contingencies if they arise. Consumers will be able to access their money.
- Check-out rumors before taking them seriously.

In closing, Chairman D'Amours said, "I want to tell you where my money will be and where I've advised my mother to have her money when the clock strikes midnight December 31, 1999. My money, and if she takes my advice, my mother's money will be in our credit union, where it's safe and insured against loss by the U.S. Government."

Over the next few months, federal financial agency leaders will appear in major cities at press conferences, on radio talk shows and at public forums to tell people that the financial industry is ready and their money will be safest if left in an insured financial institution as the millennium draws to a close.

## News Briefs

**CDCU Program** — The House of Representatives has included another \$1 million for the Community Development Revolving Loan Program in appropriation legislation for FY 2000. As of Aug. 31, 1999, the Loan Program had 70 loans outstanding totaling \$7,894,118. An additional two were in process totaling \$350,000. Nine technical assistance grants were approved in August for \$21,652. Year-to-date, 83 grants totaling \$246,840 have been distributed.

**Empowerment 2000** — Over 220 people attended NCUA's Empowerment 2000 Workshop in Honolulu, Hawaii, in mid September. This is the first of the one and a half day workshops planned in two other cities this fall, Albuquerque, N.M., Oct. 22 - 24, and Miami, FL., Nov. 12 - 14. Basic operations and finance are the focus of the training being held on weekends to accommodate the schedules of small credit union managers who must be in their institutions Monday through Friday.

**Electronic Financial Services** — NCUA plans to develop examination

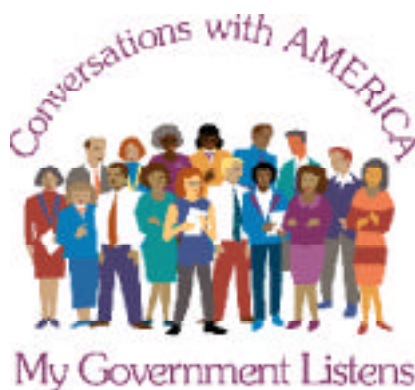
policies and procedures pertaining to electronic financial services that identify and monitor credit union web sites, develop training programs for field staff, issue *Letters to Credit Unions*, Instructions, and Bulletins, and provide a related section in the *Examiners' Guide*.

**Accounting Position Paper** — Usually, under generally accepted accounting principles (GAAP), it is inappropriate to simply combine financial statements when credit unions merge. "Purchase

accounting" is required and NCUA expects to issue a policy shortly offering direction in this area.

**Insurance Fund Update** — The equity level of the National Credit Union Share Insurance Fund was 1.31 percent at August 31, 1999, based on insured shares of \$322.5 billion at December 31, 1998. Twelve credit unions had failed through the end of August at a cost to date of \$4.4 million.

## Conversations with America



**Who and What:** Chairman Norman E. D'Amours addresses the National Federation of Community Development Credit Union Institute.

**When:** Oct. 15, 1999

**Where:** New Hampshire College Student Center, Manchester, NH

**Why:** To discuss the regulatory process.

**Contact:** Lesia Bullock at 703-518-6333 or email [lesiab@ncua.gov](mailto:lesiab@ncua.gov).

**Who and What:** Board Member Dennis Dollar will attend and participate in the meeting of the Richmond Chapter of Credit Unions. Mr. Dollar will address NCUA and Credit Unions: 2000 and Beyond."

**When:** Tuesday, Oct. 19, 1999

**Where:** Holiday Inn Select, Richmond, Va.

**Why:** Participant feedback will be considered and solicited on this and any other NCUA initiative or policy. Questions and answers with participants is scheduled.

**Contact:** Kirk Cuevas at 703 518-6306 or email [jcuevas@ncua.gov](mailto:jcuevas@ncua.gov).

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## NCUA News

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

**Norman D'Amours, Chairman**  
**Yolanda T. Wheat, Board Member**  
**Dennis Dollar, Board Member**

Information about NCUA and its services may be secured by writing to the Office of Public and Congressional Affairs, or by calling 703-518-6300. News of what is happening at NCUA is available by calling 800-755-1030 or 703-518-6339.

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Sept. 16, 1999 — Board Member Dennis Dollar welcomes C. Kipp Stecher, President/CEO of AmeriChoice Federal Credit Union, Mechanicsburg, Pa., to NCUA.

## BOARD ACTIONS

### JULY 22, 1999

#### Supervisory Committee Audit and Verification Rule Finalized

The NCUA Board approved a final supervisory committee audit and verification rule establishing new Part 715 and revising Part 741 to incorporate the minimum audit and reporting requirements imposed by the *Credit Union Membership Access Act*. Additionally, Part 715 replaces Sections 701.12 and 701.13 of the NCUA R&Rs.

The final rule changes establish minimum annual audit requirements based on charter type and asset size, the licensing authority required for persons performing certain audits, and the auditing principles credit unions must follow in filing call reports with the NCUA.

Part 715 implements the statutory floor requirement of \$500 million in assets when federally-insured credit unions must obtain a financial audit. Credit unions under \$500 million may elect a financial statement audit or choose from three alternatives – a balance sheet audit, a report on examination of internal control over call reporting, or an audit as prescribed in NCUA's *Supervisory Committee Guide*. All audits must be performed by a State-licensed auditor, except for the *Supervisory Committee Guide* audit, which may be performed by a state-licensed auditor or an otherwise qualified person.

The final rule revises Part 741 by requiring that credit unions with assets of \$10 million or more must follow generally accepted accounting principles when filing call reports with NCUA.

The new rule is effective January 1, 2000. NCUA plans to issue a new, conforming *Supervisory Committee Guide* later this year.

#### Comments Sought on Corporate Credit Union Rule

The NCUA Board issued an advanced notice of proposed rule making requesting comments on provisions in Part 704, the corporate credit union rule, that have

emerged as areas to consider for revision or clarification since the rule was issued in March 1997.

A few of the issues that the Board is requesting comment on includes: definition of asset-backed securities; adjustment of membership capital; whether to eliminate or revise the paid-in capital limitation; the definition of unmatched embedded options; loan participation authority for corporates; statement of auditing standards reporting requirements; and optional fidelity bond coverage.

NCUA is soliciting comments for 120 days on this advance notice of proposed rulemaking.

#### Charter Conversions

- \*The \$38 million Gulfport VA FCU, Gulfport, Miss., gained NCUA Board approval to convert from an occupational to a community-based charter able to serve the people who live, work, worship, or attend school, as well as businesses and other legal entities located in Hancock and Harrison Counties.
- The NCUA Board denied, by a two to one vote, appeal requests from three Hudson Valley, N.Y., federal credit unions seeking authority to convert to community charters in order to serve the identical area consisting of Dutchess, Ulster, Orange, and Putnam Counties.

The conversion appeals were denied based on the credit unions' inability to prove sufficient resident interaction to warrant a community-based charter for the four-county area encompassing over 3,000 square miles and over 850,000 residents. The following community charter conversion appeals were denied —

**TEG FCU**, Poughkeepsie, N.Y., a \$76.4 million multiple-group credit union.

**Hudson Valley FCU**, Poughkeepsie, N.Y., a \$1 billion multiple-group credit union.

**Mid-Hudson Valley FCU**, Kingston, N.Y., a \$274 million multiple-group credit union.

#### Secondary Capital Account Proposal Issued

The NCUA Board issued a proposed change to secondary capital accounts, Section 701.34, to clarify that interest accrued on secondary capital accounts in low-income credit unions may be paid into the secondary capital account, paid directly to the investor, or deposited into a separate account from which the investor can make withdrawals. The comment period is 60 days.

#### NCUA Mid-Year Budget Approved

Higher than expected vacancies throughout the agency have caused expenditures to be under budget by 3.8 percent, according to a mid-year budget analysis. Even when taking new expenditures into account, the NCUA Board approved a re-programmed 1999 budget of \$117.3 million, which is 3.8 percent below the original 1999 budget of \$121.96 million. Some significant new initiatives added during the mid-session budget review require funding for increased Y2K staff demands, Office of Human Resources initiatives, laptop computer repairs, employee relocations, consulting services, space alterations, a compensation study and recruitment expenses.

\*Board Member Dennis Dollar recused himself from this vote because he is a member of Gulfport VA FCU.

## SEPTEMBER 16, 1999

#### Community Service Proposal

Chairman Norman D'Amours' proposal requiring federal credit unions with assets over \$10 million to include plans to serve low-income members and potential members in their business plans failed to receive a second.

The proposal included a stipulation that NCUA consider a credit union's efforts to carry out this portion of its business plan when it seeks to expand its charter. The proposal also required that examiners review community credit unions'

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# Internship Program Showcases Benefits of Partnering

NCUA's Community Development College Internship Program completed its 3<sup>rd</sup> summer with a host of successful partnerships created throughout the United States.

This unique program, which began in 1997, targets those low-income designated credit unions (LICUs) that have a need for additional staffing but are not able to pay for it out of their tight budgets. The internship program has grown tremendously each year. This summer, NCUA's Office of Community Development Credit Unions provided technical assistance grants for college students to train at 27 LICUs. Each host LICU was partnered with a larger credit union nearby that served as the mentor credit union. The students split their week training in the host credit union and the mentor credit union in order to receive the benefit of learning how different sized credit unions operate.

The LICUs benefit immensely from the experience. They established mentor relationships with larger credit unions, build business partnerships with the colleges where the students attend, and provide specialized training to young people who hopefully will become valuable members of their staffs at some future date.

Here are a few students at their host credit unions.



University of Mary student Amanda Enebo was a welcome addition to the staffs of First Community Credit Union, Bismark, and its partner Mandan Railways Credit Union in North Dakota.



Kingsville Community Federal Credit Union, Kingsville, Texas — Ana Laura de Anda from Texas A&M University trained at Kingsville Community FCU and Kingsville Area Teachers Federal Credit Union.



Mateitalo Maaake (center) from Brigham Young University of Hawaii spent his summer training at Kahuku Federal Credit Union and Honolulu City & County Employees Federal Credit Union.



## INTERNSHIP PROGRAM

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*Ophelia Isaac-Cook of Livingstone College, North Carolina, trained at Rowan-Iredell Area Federal Credit Union, Salisbury, N.C., and School Workers Federal Credit Union.*



*Lander University student Crystal Rich interned at Greater Abbeville Federal Credit Union and Carolina Employees Credit Union in South Carolina.*

## BOARD ACTIONS SEPTEMBER 16, 1999

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efforts to carry out the section of their business plan pertaining to providing service to low-income members and potential members.

### Overdraft Proposal Issued

The NCUA Board issued a proposal, with a 60-day comment period, to amend Part 701.21(c)(3) by permitting federal credit unions to advance money to cover a member's overdraft without a credit application on file provided the credit union has a written overdraft policy.

Under the proposal, the overdraft policy must:

- Address how the credit union will honor overdrafts;
- Set a cap on the dollar amount of overdrafts the credit union will honor;
- Establish a time limit not to exceed ten business days for a member to either fund the overdraft or secure a loan to cover the overdraft;
- Limit the number and amount of overdrafts the credit union will honor per member; and
- Establish the fee and interest rate, if any, the credit union will charge members for honoring overdrafts.

While the proposal is under consideration, NCUA will not take exception to FCUs that permit overdrafts as long as there are no safety and soundness concerns or evidence that the practice is being abused.

### Community Charter Conversions

The NCUA Board approved a community charter conversion request from Star USA Federal Credit Union, Charleston, W. Va. The \$84.9 million multiple-group credit union is converting to a community charter to serve the people who live, work, worship, or attend school in Kanawha and Putnam Counties in West Virginia.

*Votes are unanimous unless otherwise noted.*

## CONVERSATIONS WITH AMERICA

continued from page 2

**Who and What:** Board Member Dennis Dollar will attend and participate in Reinsel & Company's Annual Credit Union Conference. Mr. Dollar will address "NCUA and Credit Unions: 2000 and Beyond."

**When:** Thursday, Oct. 21, 1999

**Where:** Adams Mark Hotel, Philadelphia, Pa.

**Why:** Participant feedback will be considered and solicited on this and any other NCUA initiative or policy. Questions and answers with participants is scheduled.

**Contact:** Kirk Cuevas at 703 518-6306 or email [kcuevas@ncua.gov](mailto:kcuevas@ncua.gov).

**Who and What:** Chairman D'Amours is holding a town meeting open to all area credit unions.

**When:** Oct. 22, 1999

**Where:** Sheraton Uptown, Albuquerque, NM

**Why:** To gather input and directly discuss regulatory issues with credit unions.

**Contact:** Lesia Bullock at 703-518-6333 or email [lesiab@ncua.gov](mailto:lesiab@ncua.gov).

**Who and What:** Chairman Norman E. D'Amours will attend NCUA Empowerment Workshops for small credit unions, by registration only.

**When:** Oct. 23-24, 1999

**Where:** Sheraton Uptown, Albuquerque, NM

**Why:** To provide education for managers and directors of small credit unions.

**Contact:** Lesia Bullock at 703-518-6333 or email [lesiab@ncua.gov](mailto:lesiab@ncua.gov).

**Who and What:** Board Member Dennis Dollar will attend and participate in the National Association of Community Credit Unions' Conference. Mr. Dollar will speak on "NCUA and Credit Unions: 2000 and Beyond."

**When:** Tuesday, Oct. 26, 1999

**Where:** Reno Hilton Hotel, Reno, Nev.

**Why:** Participant feedback will be considered and solicited on this and any other NCUA initiative or policy. Questions and answers with participants is scheduled.

**Contact:** Kirk Cuevas at 703 518-6306 or email [kcuevas@ncua.gov](mailto:kcuevas@ncua.gov).



# Making Final Y2K Preparations

Credit unions are in great shape with 99.7% rated "satisfactory." The credit unions rated "Less than Satisfactory," are under intense scrutiny and specific plans are in place to ensure they are ready for the century date change. NCUA is confident that all federally-insured credit unions will be ready for Year 2000.

The final Year 2000 milestone date passed September 30, the implementation milestone, and credit unions are actively working on final preparations for the century date change. An imminent *Letter to Credit Unions* concerning final Y2K preparations will address:

- Member communications between now and the century date change,
- Contingency planning - issues NCUA has observed during reviews,
- Testing during the century date change weekend,
- Operating hours during the century date change weekend,
- Developing an event rollover plan for the century date change weekend, and
- NCUA initiatives.

One of the most important activities for credit unions between now and December 31, 1999, involves member communications. The majority of credit unions have been effectively communicating with their members on Year 2000 issues for some time. Communication examples involve town meetings, newsletter articles, statement stuffers, messages on credit union audio response units, special Year 2000 Hotlines, Year 2000 and other meetings.

Members' perception of their credit union's Year 2000 readiness will be determined to a large extent on how you choose to communicate with them. Credit unions should actively communicate with their members about Year 2000 at every opportunity.

Failure to effectively communicate about your Year 2000 readiness may provide an opportunity for others to form your members' perceptions about your credit union's readiness. We have seen sensational stories in the news media that emphasize extreme scenarios. Don't let these stories be your

members' only information about Year 2000.

A recent Gallop Poll reported that 45% of respondents believe that banking systems will fail as a result of the Year 2000. It is our joint responsibility - NCUA and credit unions - to get the word out to ensure that the public is properly informed that credit unions are ready for Year 2000. We must work together to educate the public and correct this misconception.

Chairman D'Amours will be appearing with fellow financial regulators in coming months in various cities to get the word out through radio, television, print, and electronic media that financial institutions are ready for the century date change.

Last month, NCUA published a special edition of the *NCUA NEWS* that credit unions can use as an educational resource to provide members salient information about how credit unions and other financial institutions have prepared for the event, and what steps members can take to protect their savings and monitor their accounts. The September edition of the *NCUA NEWS* is on the web at [www.ncua.gov/news/newsletter/news0999.pdf](http://www.ncua.gov/news/newsletter/news0999.pdf).

## Financial Institutions Earn 5 Stars

The financial services industry earned the highest and only 5-star rating as eight major economic sectors were graded for overall Y2K readiness in a September 22, 1999, report by the U.S. Senate Special Committee on the Year 2000 Technology Problem.

## Y2K Health Check

NCUA will be contacting every federal credit union between January 1 and January 4, 2000, to learn first hand how each credit union is fairing. After the contact is made, NCUA wants credit unions that experience any sort of problem to contact their NCUA examiner immediately so the agency is aware and can lend assistance if necessary.

## ABOUT INVESTMENTS

# Investments and Asset/Liability Management

What is asset/liability management? Why should you care about it?



The purpose of asset/liability management is to do for an institution what investment analysis does for a security. Many of the techniques used to assess individual investments

have been adapted to evaluate financial institutions as a whole.

Just as an investment has a market value, the value of a credit union can be calculated. If you can value your credit union's assets, and then deduct

the value of liabilities, you have the value of its capital.

Credit union earnings affect capital. Effective asset/liability management is an important tool designed to provide answers to the following questions: What will happen to credit union earnings if interest rates change? How much will they be affected? What can I do to protect against large rate movements? Are investments consistent with long-term profitability while protecting capital? How will the capital value of the credit union be affected?

## Call Reports Changes Adopted

The September 1999 *Call Report* incorporates changes that NCUA adopted to meet *Credit Union Membership Access Act* requirements and adds a few changes deemed necessary.

Some of the changes include:

- Federal and state-chartered, federally insured credit unions use identical forms.
- Trading Securities, Available for Sale Securities, and Held-to-Maturity Securities are added balance sheet accounts.
- Membership Capital and Paid-in Capital for corporate credit unions are split into separate accounts.
- "Allowance for Loan & Lease Losses" renames the former "Allowance for Loan Losses."
- The NCUSIF deposit moves from the Investment section to Other Assets.

- Uninsured Secondary Capital moves from the Equity section to the Borrowing schedule.
- Income and Expense is reformatted according to GAAP requirements, with some accounts moved into four new sections.
- Web site section gains additional reporting questions.
- CUSO financial statements are consolidated into credit union financial statements.
- Five new mandatory questions pertain to credit and borrowing.

All future call reports will contain these September 1999 changes. A detailed discussion of the changes is in NCUA *Letter to Credit Unions 99-CU-14* available on NCUA's web site at <http://www.ncua.gov/ref/letters/99-CU-14.pdf>.

## Hurricane Floyd Activates Disaster Relief

NCUA activated its disaster relief policy in mid September to assist credit unions and members in the southeast and northeast where offices and homes have been damaged and destroyed by flooding from Hurricane Floyd.

Under disaster policy, credit unions are encouraged to make loans with special terms and reduced documentation to members affected by flooding. NCUA will also reschedule routine examinations as necessary and guarantee lines of credit for credit unions through the Share Insurance Fund and the Central Liquidity Facility.

NCUA personnel operate under three priorities during disaster conditions:

- Ensure the safety of credit union staff;
- Keep facilities and operations available to members; and
- Provide material and technical assistance, as needed, to affected credit unions.

## Upcoming Board Actions

This fall, the NCUA Board is expected to consider the following items:

- NCUSIF Dividend;
- NCUA Operating Budget and Operating Fee Scale;
- Final rule on Secondary Capital – Part 701;
- Insurance and Group Purchasing Proposal – Part 721;
- Insurance Requirements — Part 741;
- Share Insurance Proposal — Part 745;
- Medical Saving Account Proposal — Part 724;
- Interlock Final — Part 711;
- CUSO Final – Part 712; and
- Final FCU Bylaw Revision.

# Credit Union and NCUSIF Quick Facts

## Share Insurance Fund As of June 30, 1999

Total Equity	\$ 4.2 billion
Equity Ratio	1.30 percent
Total Assets	\$ 4.3 billion
Reserves	\$75.7 million
Ret. Earnings/Shares	0.30 percent
Operating Expense	\$26.8 million
Net Income	\$83.8 million
Insurance Losses	\$0
Insured Shares	\$322.5 billion
Credit Union Failures	8
Invol. Liquidations	7
Assisted Mergers	1

## For Comparison, 1998 Year End Data

NCUSIF Equity Ratio	1.30 percent
NCUSIF Assets	\$3.9 billion
NCUSIF Net Income	\$168.9 million
NCUSIF Reserves	\$78.6 million
Insurance Losses	\$0
No. Credit Unions	10,995
No. CU members	73.5 million
CU Assets	\$388.7 billion
Shares	\$340 billion
Loans	\$245.7 billion
Investments	\$124.6 billion

## Federally Insured Credit Unions As of June 30, 1999

No. Credit Unions	10,841
Federal CUs	6,707
State CUs	4,134
No. CU Members	74.6 million
Assets	\$407.0 billion
Shares	\$356.6 billion
Loans	\$255.0 billion
Loan/Share Ratio	71.5 percent
Investments	\$133.0 billion
Capital	\$ 46.2 billion
Capital/Asset Ratio	11.3 percent

**International Credit Union Day** is Thursday, October 21, 1999. Today, the 97 million people who belong to 39,007 credit unions around the world share the benefits of cooperative financial service thanks to the many dedicated people working to preserve the "people helping people" principle that makes credit unions unique. "Celebrate the Credit Union Difference" is this year's theme for Credit Union Day.

# NCUA News

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